GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:598
ANSWERED ON:18.11.2016
Transparency of Financial Products
Singh Deo Shri Kalikesh Narayan

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has mandated any regulations to increase transparency of financial products marketed by banks and financial institutions to retail investors, if so, the details thereof and if not, the reasons therefor;
(b) whether the Government is aware that banks and financial institutions market financial products to retail customers in violation of investors best interest, if so, the details thereof and the action taken by the Government in this regard; and
(c) whether the Government has received complaints by investors on the lack of transparency of objectives, structure of products and commissions paid for marketing them, if so, the details thereof and the action taken by the Government thereon?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
SHRI ARJUN RAM MEGHWAL

(a): Yes Madam. The Securities and Exchange Board of India (SEBI) has informed that it regulates the activities of mutual funds through the SEBI (Mutual Funds) Regulations, 1996 and circulars issued thereunder wherein regulatory norms have been prescribed towards increasing transparency of Mutual Fund policies marketed by distributors (which include banks and financial institutions) to retail investors. For this purpose, SEBI has mandated stringent disclosures with regard to scheme-related information, valuation policy, financial results, investor complaints, total commission paid to distributors, key executive remuneration etc.

The Reserve Bank of India (RBI) has, vide Master Directions dated 26th May, 2016 on 'Financial Services provided by banks', prescribed guidelines to banks for undertaking agency business of mutual funds, insurance companies etc. Further, in December, 2014, RBI formulated a Charter of Customer rights which includes Right to Suitability and the Right to Transparency, Fair and Honest Dealings, aimed at protecting the interests of bank customers in sale of third party products by banks.

The Pension Fund Regulatory and Development Authority (PFRDA) has informed that after the passage of the PFRDA Act, 2013, 14 Regulations were notified, with the aim of protecting subscribers, ensuring proper management of risk and providing transparency in operations.

The Insurance Regulatory and Development Authority of India (IRDAI) has informed that it has notified the IRDA (Linked Insurance Product) Regulations, 2013 and IRDA (Non-Linked Insurance Product) Regulations, 2013 stipulating the norms related to risk cover, returns, benefit payments, product structure, charges, yield, discontinuance terms, surrender value, review of financial viability etc., in respect of life insurance products. Further, it has put in place a comprehensive regulatory framework which aims at ensuring transparency of insurance products marketed by the insurance companies and protection of policyholders' interest.

(b) & (c): SEBI has informed that it receives complaints from investors including on irregular practices adopted by distributors (including banks and financial institutions) which could lead to mis-selling and churning of their portfolio. SEBI suitably takes up the matter with the concerned Mutual Fund while complaints related to distributors are taken up with the Association of Mutual Funds in India (AMFI), with whom distributors are registered. Wherever warranted, SEBI takes regulatory actions such as issuing warning and deficiency letters and enforcement actions such as direction, adjudication, inquiry, etc.

In addition, to address the issue of mis-selling, AMFI has been mandated to create a Unique Identification Number (UIN) of each employee of the distributor interacting with the investor for sale of mutual fund products. Mis-selling has been included as a "fraudulent and unfair trade practice" in SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 in December 2012. Also, all mutual funds are required to 'Label' their schemes to enable investors to make informed investment decisions.

The RBI has informed that the offices of Banking Ombudsmen receive complaints on mis-selling of third party investment products by banks. Vide the Master Directions dated 26th May, 2016, RBI has formulated guidelines for curbing mis-selling such as need/ suitability assessment of products for a customer, ban on cash/ non-cash incentives to sale staff, ban on forcing a customer to opt for products of a specific insurance company or link sale of such products to any banking product, setting up a robust internal grievance redressal mechanism etc.

PFRDA has informed that it has not received any complaint regarding transparency of objectives, structure of products and commissions in relation to the National Pension System (NPS) or any other pension scheme regulated by PFRDA.

IRDAI has informed that in order to address customers' grievances/complaints, it has put in place an Integrated Grievance Management System (IGMS). In addition, IRDAI has also has put in place a number of monitoring and controlling tools to address and minimise any type of regulatory violations, including periodic on-site and off-site monitoring of insurance companies, supervising the

claims payment position of the insurance companies, facilitating resolution of policyholder grievances, conducting investigations on complaints received by the policyholders and initiating regulatory action where necessary.

Further, IRDAI has informed that currently, there are no such complaints on the lack of transparency of objectives, structure of products and commissions paid for marketing them

Further, the Ministry of Finance had set up a Committee under the Chairmanship of Shri Sumit Bose to examine the existing commission/ incentive structure across different financial products and to suggest measures to rationalize the same. The Committee submitted its report in August, 2015.

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